



# The Advanced Certificate in Performance Audit for International and Public Affairs Management

## Workshop Overview

### Performance Audit –What is it?

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We will discuss the principles of performance audit. The session explores the use of performance audit as a tool to enhance the accountability relationship between the governing body (Parliament) and the delivery entity. Performance auditing is now governed by a set of standards both domestic and international. We will describe the standards and explain the importance of standards when conducting performance audits. We will then examine the current state of performance auditing in developing countries.

### Performance Audit and Evaluation

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Management uses Program Evaluation as a tool to improve program design and influence policy choices. The performance audit may include an examination of program effectiveness. The workshop will examine how these two disciplines differ and complement each other.

### Performance audit in the internal audit activity

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Internal auditors are concerned with the design and application of risk management, control, and governance practices in their organizations. Although the internal audit and performance audit processes are very similar, internal auditors can identify and focus more directly on issues of economy, efficiency, and effectiveness by using a performance audit approach for planning the audit.

For a significant program or activity, that is one critical to achievement of the organization's objectives; the internal auditor determines related inputs, outputs, and outcomes. Next, the auditor identifies the major risks associated with obtaining the input resources, producing the outputs, and achieving the desired outcomes. This analysis leads to potential lines of audit enquiry. If, for example, there is a risk related to acquiring and sustaining necessary program resources, then the auditor would have a potential economy

issue. The next steps are to consider how management is mitigating that risk and whether a significant residual economy risk remains. Issues of efficiency and effectiveness can be identified in a similar manner.

## **Performance Audit in Developing Countries**

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The majority of audit work conducted in developing countries is regularity audit. This type of audit looks at individual transactions to determine if the transaction conforms to the authority and complies with expenditure rules of the country and related funding institution. Developing countries are finding that the performance audit is of greater interest to the Legislature as it addresses the question of value received. We will explore the transformation of the audit practice and how this is bringing greater accountability in developing countries.

## **Relationship Management and Communications**

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Performance auditors must interact more often and in more depth with management than the traditional financial audits. The auditor needs to understand what good/effective relationship management is; identify the behaviours related to this competency; and understand the difficulties and issues that arise in dealing with management and ways to handle and resolve them. There are significant milestones in the audit when auditors normally communicate with the management and the auditor needs to make use of informal and formal methods to ensure the success of these communications.

Management should also be proactive with the auditor, understanding the potential benefit of the audit and engaging staff in the process. Management should establish a point of contact for the auditor and communicate to staff the protocols for engaging the auditors. By understanding the audit objectives and following the collection of evidence management is in a better position to contribute effectively to the findings and conclusions of the audit. An open communication will help management understand the audit recommendations and produce a timely and effective action plan to respond to them.

## **Fraud Awareness in Performance Audit**

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Performance auditors must always be alert for indicators of fraud in programs and activities they audit. However, performance audit and fraud audit do not mix. Performance auditors must learn first what to look for, then what to do and not do if a fraud is suspected.

It is management's responsibility to evaluate fraud risk and implement an appropriate fraud prevention program. Performance auditors, in assessing fraud risk, consider opportunity, the organization's fraud history, and its fraud prevention program. Performance auditors should also be aware of the 'red flags' that may be indicators of fraud. But performance audits are not fraud audits. Auditors need to know how to assess

fraud risk in the conduct of a performance audit. However, it is important that the auditor's sensitivity to the possibility of fraud does not bias the audit approach or results.

## **Performance Audit and Procurement**

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A main expenditure that permeates all public sector activity is the procurement of goods and services. It is an activity where rules abound and are often ignored in the name of getting the job done. Procurement is a major issue of economy. The course will explore the risks associated with procurement, what constitutes good procurement practices and how the performance audit can provide the assurances to the governing body that they seek concerning the procurement activity.

## **Performance audit of donor-funded development projects**

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In most cases, these will be results-based audits. That is, the auditor will consider the effectiveness of a project in achieving its objectives as well as the economy and efficiency with which the project was delivered.

This focus on results requires that the auditor can define what the planned results were so that a valid comparison can be made to the actual results. For example, a donor may have defined project objectives and success in terms of its output characteristics: cost, quality, number of recipients reached, etc. It will likely have also defined the immediate and intermediate outcomes that the project is intended to achieve.

When the auditor determines that planned output and outcome results were not achieved then a project's supporting structure, systems, and controls are examined to identify underlying causes. These causes of unsatisfactory performance lead to recommendations for improvement in project management and delivery.

## **A risk based approach to selecting audit topics**

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It is impractical to conduct a performance audit of all entities and issues because of the audit resource limitations and the capacity of management to respond to the audit interventions. There is a lot of consistency and commonality in the risk assessment approach and methodology used across the legislative audit offices and the broader audit community. The auditors' terminology and practices are also quite consistent with the models and theories that underlie enterprise risk-management programs. We will examine how auditors identify risks at the entity/issue level and then rank the issues based on significance and likelihood.

## **Preliminary Study - Planning the Performance Audit**

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Once a topic has been identified for audit the auditor needs to plan the audit approach. Developing audit objectives and criteria for the audit requires a good knowledge of the subject matter. We will explore how the auditor gains the necessary knowledge to

develop audit objectives and criteria. Management has a role to play here as well. The report of the auditor is intended for the governing body and management should work with the auditor to develop objectives that will be meaningful to the governing body. In addition the auditor confirms with management the suitability of the criteria relative to the objectives.

The audit methodology allows the auditor to conclude against the audit objective with a high level of assurance. We will examine how the auditor develops the audit methodology and ways in which management can support the robustness of the methodology and the impact of the audit procedures on the funding as well as recipient organization.

## **Main Study - Examination and Evidence**

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In the conduct of the performance audit, auditors are following their programs to acquire sufficient appropriate evidence. This evidence is obtained in various ways which we will explore. The course will also examine the ways in which evidence is analysed to determine whether the criteria have been met and how management confirms that all relevant information has been examined by the auditors in making their determinations.

Following the determinations of whether criteria have been met the auditor needs to consider the causes and effects of deviations. This next level of analysis is important in determining reportable issues and making recommendations. The workshop will explore methods of making these determinations and how the auditor remains independent and at a level of detail to promote accountability and corrective action.

A key feature of the main study is that the auditor must conclude against the audit objectives and indicate the level of assurance being provided.

## **Reporting the Performance Audit**

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In the course we will discuss the reporting standards and how they may be met. Our emphasis will be on minimizing the possibility that a reader might be misled or not correctly understand the findings and conclusions.

To meet the reporting requirement the auditor must first understand the reporting mandate (e.g. due regard for 3Es) and the nature of the performance audit report. We will discuss the difference between the assurance report and direct reporting, either exceptions only or balanced.

The auditor needs to understand your audience and consider user expectations of the performance audit report. We will examine the needs of the prime audience (legislators and governing bodies) but other users such as management and media.

## **Quality Control and review**

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Audit supervisors and managers have responsibility to confirm the quality of the audit plan, evidence, and report. Participants will learn why quality review is such a critical component of the performance audit process; what the requirements are; how to apply them; and some of the good practices in place in legislative audit offices.

## **Follow-up of the Performance Audit**

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Once a performance audit is complete then management is asked to respond to the recommendations and develop an action plan to deal with the noted deficiencies. This is for the benefit of the audited entity and its governing body. The auditor will follow-up on the recommendations for two reasons: to ensure that the deficiency is corrected; and, to measure their own effectiveness in creating needed change. The workshop will examine the various methods currently in use by legislative auditors to follow-up on their performance audits and report to the governing body the actions of management.

## **Course Summary and Wrap Up**

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Review course objectives; reflect on participant expectations and the extent to which they have been met; and test the extent to which the participants have acquired knowledge and understanding from the course.

## **General**

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This workshop will make use of lecture, discussion and in-class exercises as well as individual study. Participants are expected to have laptop computers and internet access to conduct on-line research into specific issues.